



September 7, 2017

The Honorable Dannel P. Malloy  
Office of the Governor  
210 Capitol Avenue  
Hartford, CT 06106

The Honorable Joseph Aresimowicz  
Speaker of the House of Representatives  
Legislative Office Building, Room 4105  
Hartford, CT 06106

The Honorable Martin M. Looney  
President Pro Tempore  
Legislative Office Building, Room 3300  
Hartford, CT 06106

The Honorable Matthew D. Ritter  
House Majority Leader  
Legislative Office Building, Room 4106  
Hartford, CT 06106

The Honorable Robert Duff  
Senate Majority Leader  
Legislative Office Building, Room 3300  
Hartford, CT 06106

The Honorable Themis Klarides  
House Minority Leader  
Legislative Office Building, Room 4200  
Hartford, CT 06106

The Honorable Leonard A. Fasano  
Senate Republican President Pro Tempore  
Legislative Office Building, Room 3402  
Hartford, CT 06106

The Honorable Kevin Witkos  
Deputy Senate Republican President Pro Tempore  
Legislative Office Building, Room 3400  
Hartford, CT 06106

RE: City of Hartford's Finances

Dear Governor Malloy and Legislative Leaders:

For the past year, we have highlighted the urgency of Hartford's fiscal crisis. The time has come to decide, together, what future we want for our Capital City. *If the State fails to enact a budget and continues to operate under the Governor's current executive order, the City of Hartford will be unable to meet its financial obligations in approximately sixty days. If there is no budget or additional State funding in place at that time, we anticipate seeking authority to file Chapter 9.*

The extraordinary measures that other towns are now contemplating in response to the State's budget crisis — use of fund balance, large numbers of layoffs, and painful service reductions — are measures that the City of Hartford has already taken over the past eighteen months.

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We cannot cut our way out of this crisis. As a Moody's Investors Service FAQ report stated last month, "There is very little room for further cuts, given the reductions in services the city has already made and its fixed costs..." If we cut the City's operating budget further, Moody's added, "Hartford would likely be eliminating, rather than reducing, core services."

We also cannot tax our way out of this crisis. Our property taxes on commercial property are the highest in the State and may be the highest in the nation. With a mill rate of 74.29, our long-term growth and sustainability depends on reducing, not raising, the property tax.

**As you continue working to enact a biennial budget and consider the impact of that budget on our Capital City, there are three choices available to you, as leaders of our State:**

1. *You could give Hartford just enough additional assistance to avoid short-term liquidity problems — without the structural reforms necessary to achieve long-term sustainability, and without the investment necessary to achieve vibrancy and strength.*

This might be the path of least resistance, but it's also the path that leads to a less competitive Connecticut. While it would avoid hard decisions or embarrassing outcomes for now, providing "just enough" to achieve short-term liquidity will lead to decline, future fiscal crisis, and to continuing insolvency for our Capital City.

2. *You could fail to adopt a budget, or write off Hartford's problem as unsolvable — requiring a Chapter 9 Bankruptcy filing in the coming weeks.*

Connecticut would be the first State in the nation to have its Capital City go bankrupt. We want to avoid bankruptcy, if possible — and filing for bankruptcy because the State has failed to adopt a budget, rather than because we have collectively determined that it is the best way to achieve sustainability, would be a sad commentary on the State's budgetary gridlock. That said, a well-planned bankruptcy is a tool that can be used to address long-term liabilities like debt and pension obligations. If we are unable to find an alternative path to sustainability together, then we should all be prepared to use that tool rather than condemn Hartford and the Greater Hartford region to a future of decline.

3. *You could embrace a farsighted, collaborative approach — in partnership with the City of Hartford — to help put our Capital City on a path to sustainability and strength by doing the following things:*

- (1) Fairly reimburse Hartford for its disproportionate share of non-taxable property;
- (2) Create a mechanism that allows Hartford to achieve fair labor contracts that truly reflect the City's ability to pay;
- (3) Join us in insisting that bondholders and other stakeholders participate in the solution; and
- (4) Continue to invest in what's working.

This is the wisest, most responsible course of action, most likely to put Hartford on a sustainable path and most likely to boost Connecticut's economic competitiveness. For this approach to be successful, every one of those four elements is necessary. If any one element of this approach is missing, the rest would be inadequate for achieving true sustainability — leading instead to the same damaging outcome as the first choice described above.

**Here, discussed in more detail, are the four elements of a bold, comprehensive, collaborative approach for achieving sustainability and strength in Hartford:**

*(1) Fairly reimburse Hartford for its disproportionate share of non-taxable property*

More than half of the property in Hartford is non-taxable. State buildings pay no taxes. Hospitals and colleges pay no taxes. The Metropolitan District Commission (MDC) facilities and the MIRA (CRRRA) trash-burning power plant occupy hundreds of acres of prime real estate and pay no taxes. The countless not-for-profits that operate in Hartford but serve the entire State pay no taxes. Hartford has 35% less taxable property than West Hartford, and barely more taxable property than the small suburbs of Farmington and Glastonbury. We are a City with the tax base of a suburb.

The existing Payments in Lieu of Taxes (PILOT) formula was intended to partially reimburse communities for hosting tax-exempt property. However, the current formula disadvantages Hartford by treating State property less favorably than other non-taxable property. The current formula also excludes tax-exempt quasi-state entities like the MDC. Moreover, the existing formula been underfunded for years.

Hartford has approximately \$4 billion of taxable property and \$4 billion of tax exempt property. In FY 2017, we received \$37.2 million in PILOT payments from the State. Full funding of the existing PILOT formula would have given us approximately \$52.3 million in additional revenue. If State property were treated in the same way as colleges and hospitals, we would have received an additional \$71.8 million.

Start with a very small city and take half the property off the tax rolls, and you have a fiscal structure that is built to fail. That is the fundamental, structural problem that underlies Hartford's fiscal crisis. Fixing *and* fully funding the formula would help address the root cause of Hartford's crisis. Fully funding the existing formula, at a minimum, would represent an important step forward.

*(2) Create a mechanism that allows Hartford to achieve fair labor contracts that truly reflect the City's ability to pay*

As highlighted above, full funding of the PILOT formula is necessary but not sufficient. We have also been working to make long-term reforms to our cost structure, including our municipal labor contracts.

Organized labor plays an important role in lifting people out of poverty, creating safer, fairer workplaces, and building the American middle class. But we must be honest and direct about this fact: many of Hartford's long-term contractual obligations are unsustainable, and current State law makes it difficult for municipalities in distress to achieve the savings they need.

We have sought significant changes from our labor unions. Our firefighters agreed to a contract that achieved unusually significant savings through negotiation, and we will continue to seek significant savings from our other unions. But the current binding arbitration process leaves us with little recourse if we are unable to reach agreement.

Arbitration panels tend to resolve disputes by "splitting the baby." That process can be an important way to resolve disputes in a fair and equitable way. However, that process may simply be incapable of responding adequately to situations of true crisis — as evidenced by the 6.25% retroactive wage increase an arbitration panel recently awarded to one Hartford union.

Earlier this year, Governor Malloy proposed the establishment of a Municipal Accountability Review Board (MARB), which would have the ability to settle contract disputes with fiscal sustainability as the paramount

objective. We do not support every part of the original MARB proposal, but we support the establishment of an Accountability Board with special powers that are necessary and appropriate to help address this extraordinary challenge.

*(3) Join us in insisting that bondholders and other stakeholders be part of the solution*

While we are working to achieve long-term structural reforms in our contracts, Hartford's crisis cannot be solved by labor alone. Our FY 2018 budget already assumes additional labor concessions. That means that, if every one of Hartford's unions accepted the same terms as the Hartford Fire Fighters Association, the additional savings would close only 10% of our FY 2018 deficit. That is important, but not enough. Greater savings must come from other stakeholders, including bondholders.

The City of Hartford's debt burden is unmanageable. By FY 2021, Hartford's debt service payments will be \$61 million, or roughly 20% of our current non-education expenditures — even if we do not borrow another dollar. Our bondholders understand that our debt burden is unmanageable. They will need to be part of the solution today, through a serious, sustainable, long-term debt restructuring.

We have engaged a law firm and a financial advisor with deep expertise in municipal debt restructuring to engage in negotiations with bondholders. The State of Connecticut can assist in that effort, by standing by us as we negotiate, and by making any new State revenue beyond short-term liquidity support conditional on the achievement of a long-term sustainable plan.

*(4) Continue to invest in what's working.*

Connecticut's competitiveness depends on having a strong, vibrant Capital City. Hartford is both a vital economic center, with the largest concentration of private sector employment in the State, and also the cultural heart of our State. Preserving, promoting, and growing Hartford as a center of arts, culture, sports, and entertainment will have a profound, if intangible, impact on the attractiveness of our State to businesses and residents alike.

Even as we face the greatest fiscal crisis in our city's history, we are seeing the beginnings of a true revitalization in Hartford. Building on this momentum is essential, not just for Hartford, but for the economic competitiveness of Connecticut. Ambitious, talented, creative employees want to be in vibrant cities. Employers do too. We have heard that message loud and clear from nearly every large employer in Connecticut — including Aetna.

With UConn's campus open, thousands of market-rate apartment units now occupied, Yard Goats games selling out, commuter rail service coming soon, Coltsville thriving, Parkville growing, the long-stalled Albany Avenue streetscape project moving, citywide efforts to combat blight underway, and with a renewed partnership between the City of Hartford and its largest private employers, we have reason to be optimistic about Hartford's future.

However, the City of Hartford will likely lack cost-effective access to the capital markets for some time, and continued State partnership on capital projects to maintain basic infrastructure and create a more vibrant, connected Capital City will be necessary. The revitalization that's beginning to take root in Hartford should give you confidence that you will be investing in success.

**We have the ability to use this crisis to Connecticut's advantage, and to emerge with a solvent, sustainable, and ultimately a *strong* Capital City.**

We are committed to continuing to govern with discipline, and we are willing to continue making painful choices, while at the same time never compromising on our aspirations for a vibrant, strong City of Hartford. If, together, we are serious about fixing the fiscal foundation in Hartford, the revitalization we are beginning to see will just be the beginning. We cannot afford to make choices that simply delay the difficult restructuring that must be done.

There are those who believe that bankruptcy is inevitable. They are wrong. There are those who believe that we should avoid bankruptcy *at all costs*. They are also wrong. We should work hard, together with all of our stakeholders, to avoid bankruptcy. But we should measure success in only one way: by whether we are on a path to sustainability and strength over the long-term.

*If we recognize how much is at stake for our State, if we are honest about the size of the challenge, and if we are committed to solving the problem and not just pushing it down the road, we can be successful.*

We ask for your partnership and, as always, we are available to meet and talk with you at any time.

Sincerely,



Luke A. Bronin  
Mayor



Adam M. Cloud  
Treasurer



Thomas J. Clarke II  
President, Court of Common Council